

THE CITADEL
THE MILITARY COLLEGE OF SOUTH CAROLINA

Intercollegiate Athletics Program

Year Ended June 30, 2006

State of South Carolina



Office of the State Auditor

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January 4, 2007

The Honorable Mark Sanford, Governor
and
Members of the Board of Visitors
The Citadel, The Military College of South Carolina
Charleston, South Carolina

This report on the application of certain agreed-upon procedures to the accounting records and the statement of revenues, expenditures, and transfers of The Citadel, The Military College of South Carolina, Intercollegiate Athletics Program for the fiscal year ended June 30, 2006, was issued by Cherry, Bekaert & Holland, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/trb

**THE CITADEL
THE MILITARY COLLEGE OF SOUTH CAROLINA**

Intercollegiate Athletics Program

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Independent Accountants' Report on Applying Agreed-Upon Procedures

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
State of South Carolina
1401 Main Street, Suite 1200
Columbia, South Carolina

The Citadel
The Military College of South Carolina
171 Moultrie Street
Charleston, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Office of the State Auditor and the management of The Citadel, The Military College of South Carolina (The Citadel) solely to assist you in evaluating whether the Statement of Revenues and Expenditures of the Intercollegiate Athletic Program of The Citadel is in compliance with the National Collegiate Athletic Association (NCAA) Bylaw 6.2.3.1 for the year ended June 30, 2006 and to assist you in your evaluation of the effectiveness of The Citadel's internal control over financial reporting as of June 30, 2006. The management of The Citadel is responsible for compliance with NCAA Bylaw 6.2.3.1 and monitoring the effectiveness of internal control. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specific users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures Related to the Statement of Revenues and Expenditures

1. We obtained the Statement of Revenues and Expenditures for the year ended June 30, 2006, as prepared by management and shown in Attachment A herein. We recalculated the mathematical accuracy of the amounts on the schedule and compared the amounts to The Citadel's general ledger.

We found such amounts to be in agreement.

2. We confirmed directly with responsible officials of The Citadel Brigadier Foundation the amount of contribution revenue remitted to The Citadel for the year ended June 30, 2006. We compared the amount of contribution revenue confirmed by The Citadel Brigadier Foundation with the amount recorded on The Citadel's general ledger for the year ended June 30, 2006.

We found that the amount per the confirmation was in agreement with the amount recorded in the general ledger.

3. We requested from management a schedule of capital asset additions of The Citadel's Intercollegiate Athletic Program, summarized by type, for the year ended June 30, 2006.

We were informed there were two capital asset additions for the year ended June 30, 2006 totaling \$ 35,945. We found the amount per the capital asset schedule and the general ledger to be in agreement. We found the information disclosed in the footnotes to be in agreement with the general ledger. We found the supporting documentation information as to cost to be in agreement with both the capital asset schedule and the general ledger.

4. We scanned The Citadel's general ledger for individual contributions that constituted more than ten percent of the contribution revenue included in Attachment A.

We found one individual contribution that constituted more than ten percent of the contribution revenue included in Attachment A. The contribution was from The Citadel Brigadier Foundation.

5. We obtained the reconciliation of revenue from football ticket sales between the general ledger and The Citadel's Point of Sale Summary Report for the year ended June 30, 2006 prepared by the athletics department business manager and reviewed by The Citadel's internal auditor, and compared such revenue amount to the corresponding amount in Attachment A.

The Citadel's Point of Sale Summary Report was \$ 65 higher than the revenue from football ticket sales per Attachment A.

6. For contribution revenue, we compared the amount per the general ledger to the corresponding amount in Attachment A.

We found Attachment A and the general ledger was in agreement.

7. For guarantees revenue and expenditures, we obtained a detail schedule of the revenue and expenditures reported and compared the amounts per the detail to the corresponding amount in Attachment A. We compared all individual amounts in the detail to amounts on the guarantee contracts.

We found Attachment A and the detail schedule total to be in agreement; and we found such amounts to be in agreement with the supporting contracts.

8. We obtained the Royalties, Advertising and Sponsorship revenue detail and compared the total amount per the detail to the corresponding amount in the Statement of Revenue and Expenditures in Attachment A. We chose three corporate sponsors, Coca-Cola, Johnny's and Hay Tire, and agreed the revenue per the signed agreements to the revenue recorded by The Citadel on the general ledger.

The statement amount and the detail total were in agreement. We also found the amounts recorded for royalties, advertising and sponsorship by Coca-Cola, Johnny's and Hay Tire to be in agreement with the signed agreements.

9. We obtained a report from The Citadel detailing the direct institutional support revenue recorded by The Citadel for the year ended June 30, 2006. We recalculated the mathematical accuracy of the direct institutional support revenue amounts per the report provided by The Citadel and agreed the amounts included in the calculation to the general ledger. We compared the total direct institutional support revenue in the report provided by The Citadel to the corresponding amount in the Statement of Revenue and Expenditures in Attachment A.

We found such amounts to be in agreement.

10. We compared the amount of student fees reported on the Statement of Revenue and Expenditures in Attachment A with the amount of student fees recorded by The Citadel on the general ledger.

We found Attachment A and the general ledger to be in agreement.

11. For coaching salaries and benefits expense and support staff/administrative salaries and benefits expense we obtained a detail listing of coaching salaries and benefits and support staff/administrated salaries and benefits paid by The Citadel for the year ended June 30, 2006. From this listing we haphazardly selected the twelve employees listed below. For these twelve employees, we compared the recorded salary and benefits to their contracts and/or personnel files. If the individual was employed during calendar year 2005 we compared the recorded amounts to the IRS Form W-2 issued to the individual. We compared the total expenditures for coaching salaries and benefits and support staff/administrative salaries and benefits paid by The Citadel per the detail listing to the corresponding amounts in the Statement of Revenues and Expenditures and the amounts recorded in The Citadel's general ledger. The employees selected were as follows:

Noelle L. Orr	Media Relations	Stuart D. Lake	Baseball
Jeff W. Ragan	Wrestling	Carolyn Geiger	Volleyball
William H. Rue Jr.	Grounds	Tobin J. Simpson	Tennis
Kevin Higgins	Football	Andrew B. Fox	Basketball
Isaac Collins	Football	Chris Partridge	Football
Brittany A. Meyers	Cheerleading	Edward S. Conroy	Basketball

We found no exceptions as a result of these procedures and we found Attachment A and the general ledger to be in agreement with the detail.

12. We compared actual revenues and expenditures in The Citadel's Statement of Revenues and Expenditures for the year ended June 30, 2006 to the amounts for the year ended June 30, 2005. As agreed, we identified actual variances of greater than ten percent and \$ 25,000 from the year ended June 30, 2005 amounts and obtained explanations from The Citadel's management regarding reasons for the variances. The identified variances and management's explanations were as follows:

Ticket sales – Ticket sales increased by \$ 105,666, or 23%, compared with the fiscal year ended June 30, 2005. The increase is largely attributable to an additional home football game being played during the fiscal year ended June 30, 2006.

Student athletic fees – Student fees increased by \$ 494,336, or 19%, compared with the fiscal year ended June 30, 2005. The increase is largely attributable to student athletic fees being increased by \$ 215 per student. For the fiscal year ended June 30, 2005, 1,918 students were charged an athletic fee of \$ 1,294 per student (\$ 2,481,892); for the fiscal year ended June 30, 2006, 1,964 students were charged an athletic fee of \$ 1,509 per student (\$ 2,963,676), accounting for an increase of \$ 481,784 in student athletic fees.

Guarantees – Guarantees increased by \$ 259,161, or 43%, compared with the fiscal year ended June 30, 2005. The increase is largely attributable to a \$ 40,000 increase in basketball guarantees and a \$ 220,000 increase in football guarantees.

NCAA/Conference Distributions – NCAA/Conference Distributions increased by \$ 72,082, or 29%, compared with the fiscal year ended June 30, 2005. This increase is attributable to an increase of \$ 89,628 in NCAA distributions, an increase of \$ 48,284 in Southern Conference distributions, and a decrease in concession distribution of \$ 65,830.

Royalties, advertisements and sponsorships – Royalties, advertisements and sponsorships increased by \$ 69,233, or 47%, compared with the fiscal year ended June 30, 2005. This increase is largely attributable to the baseball team securing several additional sponsorships for games to include the first ever Turn Back the Century Game with the College of Charleston as well the football team receiving approximately \$ 27,000 to install new lockers.

Coaching salaries and benefits – Coaching salaries and benefits increased by \$ 202,448, or 14%, compared with the fiscal year ended June 30, 2005. This increase is largely attributable to the following: an overall 4.5% increase in athletic salaries; the head football coach's salary was increased by \$ 24,000; severance pay for assistant football coaches as well as the head basketball coach totaling approximately \$ 79,000; the head wrestling coach's salary was increased by approximately \$ 12,000; and two baseball coaches were given bonuses totaling \$ 9,000.

Recruiting – Recruiting expense increased by \$ 52,615, or 28%, compared with the fiscal year ended June 30, 2005. This increase is largely attributable to the

football program expanding its recruiting territory as well as the new football staff gaining high school recognition attributing approximately \$ 42,000 in additional expenses. The basketball recruiting team also spent approximately \$ 10,000 in additional funds for the fiscal year ended June 30, 2006.

Team travel – Team travel expense increased by \$ 237,805, or 19%, compared with the fiscal year ended June 30, 2005. The increase is largely attributable to airline transportation costs which were not incurred during the fiscal year ended June 30, 2005. There were also additional fuel surcharges incurred to cover rising fuel costs.

Medical expenses and medical insurance – Medical expenses and medical insurance increased by \$ 58,987, or greater than 100%, compared with the fiscal year ended June 30, 2005. For the fiscal year ended June 30, 2005, medical expenses and medical insurance was included in the Other Operating Expenses line item.

Procedures Related to Internal Control Over Financial Reporting

We obtained a copy of the Policy and Procedures Manual relating to The Citadel's Intercollegiate Athletic Program. We discussed the manual with the Athletic Director for The Citadel. We made inquiries of the Athletic Director and other members of management regarding control consciousness, competency of personnel and protection of records and equipment. We also made inquiries of the internal accounting controls that were unique to intercollegiate athletics. Based on our inquiries and in accordance with our agreement with management, we performed the following procedures:

12. Fifteen daily deposits for the year ended June 30, 2006 were haphazardly selected from the daily receipt reports in The Citadel's Treasurer's office. Each of the selected daily cash receipts were compared to validated deposits slips. The items selected were as follows:

<u>Receipt Number</u>	<u>Date</u>	<u>Amount</u>
1. 11970	July 26, 2005	\$ 460.00
2. 11964	July 26, 2005	4,570.00
3. 16015	March 21, 2006	5,000.00
4. 17311	June 30, 2006	6,000.00
5. 17248	June 27, 2006	1,100.00
6. 15526	June 25, 2006	725.19
7. 14932	February 28, 2006	550.00
8. 12619	January 27, 2006	1,555.00
9. 12878	August 29, 2005	575.00
10. 14163	September 14, 2005	1,765.00
11. 14448	November 11, 2005	2,003.00
12. 13076	December 16, 2005	1,400.00
13. 15528	September 27, 2005	2,523.00
14. 16757	May 18, 2006	15,585.00
15. 16865	May 30, 2006	32,615.00

We found such amounts from the daily receipt reports to be in agreement with the validated deposit slips.

13. We haphazardly selected ten employees paid from the Intercollegiate Athletic Program for the year ended June 30, 2006. For each of these employees we compared the disbursed amount to the authorized amount per pay period. To determine the authorized amount per pay period we divided the approved annual salary as listed on either the signed employee contract or most recent salary adjustment form by the number of pay periods in a year. The employees selected were as follows:

Ryan M. Hearn	Maurice T. Drayton
Stephen Wall	David T. Lair
David J. Beckley	John N. Patterson
Kevin F. Higgins	Robert M. Fello
Henry J. Craven Sr.	Chris Lenzo

We found the disbursed amounts to be in agreement with the authorized amounts.

14. We haphazardly selected twenty-five cash disbursements for the Intercollegiate Athletic Program for the year ended June 30, 2006. For each of these twenty-five disbursements, we compared the disbursed amount and payee information to supporting documentation (i.e. receipts, invoices and acknowledgement of receipt). The items selected were as follows:

<u>Description</u>	<u>Check Number</u>	<u>Disbursement Amount</u>
1. Gary Odie	327405	\$ 251.20
2. Manuel Padro	330082	680.00
3. Citadel Athletic Fund	331103	1,050.00
4. Citadel Athletic Fund	325293	185.00
5. Citadel Athletic Fund	329245	141.35
6. Citadel Athletic Fund	336530	169.97
7. Citadel Athletic Fund	329750	84.51
8. Citadel Athletic Fund	338664	184.80
9. Citadel Athletic Fund	330387	4,900.00
10. All American Sports Corp	333437	2,835.91
11. Citadel Athletic Fund	331436	270.00
12. Citadel Athletic Fund	329751	640.00
13. Riley Johnson Jr.	327397	550.00
14. Alan Eck	327392	550.00
15. Citadel Athletic Fund	333340	420.00
16. Citadel Athletic Fund	326675	299.55
17. Citadel Athletic Fund	324629	200.00
18. Kevin Cody	328346	600.00
19. Perry Ramicone	334578	125.00
20. Citadel Athletic Fund	330000	110.78
21. Arleen Hughes	330345	185.60
22. Rick Laskey	328817	460.00
23. Flories Screen Printing Inc.	325067	930.72
24. Kelly Simpson	338592	607.60
25. Daniel Wilkes	334296	80.00

We found the disbursement amounts to be in agreement with the supporting documentation.

15. We compared the amounts reported on the Statement of Revenues and Expenditures in Attachment A for the year ended June 30, 2006 with the amounts reported on the Statement of Revenues and Expenditures for the year ended June 30, 2005 and with the budgeted amounts for the year ended June 30, 2006.

16. We requested from management a list of all outside organizations not under the accounting control of The Citadel that have as one of their primary purposes the generation of resources for, or on behalf of, The Citadel's Intercollegiate Athletic Program or the promotion of this program. We also requested from management financial statements of identified outside organizations for the year ended June 30, 2006.

Management informed us The Citadel Brigadier Foundation was the only outside organization not under the accounting control of The Citadel that had as one of its primary purposes the generation of resources for, or on behalf of, The Citadel's Intercollegiate Athletic Program. Management furnished us copies of audited financial statements of The Citadel Brigadier Foundation for the year ended June 30, 2006.

17. We requested from management a list of all expenditures made by outside organizations not under the accounting control of The Citadel for or on behalf of The Citadel's Intercollegiate Athletic Program or any of its employees.

We were told there were no expenditures made by outside organizations not under the accounting control of The Citadel for or on behalf of The Citadel's Intercollegiate Athletic Program or any of its employees.

18. We obtained from management the method for allocating overhead expense to the athletic department. We read Note 1 to the Statement of Revenues and Expenditures to determine if the method disclosed Note 1 was consistent with the method described to us.

We found the method reported in Note 1 consistent with the explanation provided to us.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the Statement of Revenues and Expenditures of the Intercollegiate Athletic Program of The Citadel or on compliance with NCAA Bylaw 6.2.3.1 or on the effectiveness of The Citadel Intercollegiate Athletic Department's internal control over financial reporting for the year ended June 30, 2006. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the State Auditor and the management of The Citadel and is not intended to be, and should not be, used by anyone other than these specified parties.

Cherry, Beckett & Holland, L.L.P.

Beaufort, South Carolina
December 7, 2006

THE CITADEL
The Military College of South Carolina
Intercollegiate Athletics Program

Attachment A

Statement of Revenues and Expenditures
For the year ended June 30, 2006

	<u>FOOTBALL</u>	<u>BASKETBALL</u>	<u>OTHER SPORTS</u>	<u>NON- PROGRAM SPECIFIC</u>	<u>TOTAL</u>
Revenues:					
Ticket sales	\$ 483,053	\$ 36,424	\$ 51,540	\$ -	\$ 571,017
Student fees	777,821	305,673	765,942	1,271,700	3,121,136
Guarantees	775,000	80,000	10,172	-	865,172
Contributions	367,917	74,793	493,867	73,040	1,009,617
Direct institutional support	1,131,721	233,530	1,415,549	-	2,780,800
NCAA/conference distributions	-	-	-	319,065	319,065
Broadcast, television, radio and internet rights	-	-	-	6,000	6,000
Program sales, concessions, novelty sales & parking	30,264	6,631	20,572	19,096	76,563
Royalties, advertisements and sponsorships	41,393	4,300	121,022	49,177	215,892
Other revenue	4,350	1,200	5,938	42,954	54,442
Total operating revenue	<u>3,611,519</u>	<u>742,551</u>	<u>2,884,602</u>	<u>1,781,032</u>	<u>9,019,704</u>
Expenditures:					
Athletics student aid	\$ 1,461,505	\$ 301,580	\$ 1,828,041	\$ -	\$ 3,591,126
Guarantees	22,500	14,000	12,000	-	48,500
Coaching salaries and benefits	691,980	271,939	681,412	-	1,645,331
Support staff/administrative salaries and benefits	-	-	-	1,131,354	1,131,354
Recruiting	162,418	53,813	27,383	-	243,614
Team travel	249,852	114,594	371,301	-	735,747
Equipment, uniforms and supplies	177,812	24,167	184,744	-	386,723
Game expenses	60,877	43,273	54,363	-	158,513
Fundraising, marketing and promotion	47,261	8,481	8,136	143,271	207,149
Direct facilities, maintenance and rental	6,202	21	17,451	312,527	336,201
Medical expenses and medical insurance	16,059	5,273	10,545	27,110	58,987
Memberships and dues	820	12,475	2,475	7,285	23,055
Other operating expenses	118,035	5,150	109,763	363,648	596,596
Total operating expenditures	<u>3,015,321</u>	<u>854,766</u>	<u>3,307,614</u>	<u>1,985,195</u>	<u>9,162,896</u>
Excess of revenues over (under) expenditures	<u>\$ 596,198</u>	<u>\$ (112,215)</u>	<u>\$ (423,012)</u>	<u>\$ (204,163)</u>	<u>\$ (143,192)</u>

The accompanying notes are an integral part of this statement.

**THE CITADEL
THE MILITARY COLLEGE OF SOUTH CAROLINA
INTERCOLLEGIATE ATHLETICS PROGRAM
NOTES TO STATEMENT OF REVENUES AND EXPENDITURES
JUNE 30, 2006**

1. Allocation of Overhead

The Citadel prepares an annual study of overhead to charge to all of its auxiliary activities. The overhead charge to the Athletics Department is derived from that study. The study is reviewed as part of the college's regular financial audit, and is comprised of an allocation of various institutional costs.

2. Contributions

The Citadel received one contribution from an outside organization that exceeded ten percent of all contributions to the Athletic Department during the year ended June 30, 2006. The contribution was received from The Citadel Brigadier Foundation in the amount of \$883,239 and is restricted to scholarships.

3. Direct Institutional Support

The Citadel provided \$2,780,800 of direct institutional support to the Athletic Department in fiscal year 2006. This total was composed of transfers from auxiliaries of \$1,115,204, transfers from unrestricted gifts of \$542,440, and waived fees of \$1,123,156.

4. Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The Citadel follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The College capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and

improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles. A full year of depreciation is taken the year the asset is placed in service and no depreciation is taken in the year of disposition.

The Citadel capitalizes as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects; therefore, asset values in capital assets include such interest costs. Capitalized interest for fiscal year 2006 was \$250,859. \$62,177 of this total was capitalized for the Stadium Replacement project.

5. Capital Expenditures

The College expended \$35,945 for equipment, which was funded by revenues, related to athletics. As these expenditures were for capital items, they are not included in the statement of revenue and expenditures.

The College is currently improving Johnson Hagood Football Stadium. An \$8 million Westside grandstand renovation project was initiated in fiscal year 2005 and approximately \$7 million is capitalized as a part of construction in progress at June 30, 2006. The grandstand project will be available for the 2007 football season. This project is funded with gifts and the \$6 million 2005 Athletic Revenue Bond. In addition, the College issued the \$8.7 million 2006 Athletic Revenue Bond in fiscal year 2006 to meet its share of funding requirements for a joint National Guard Readiness Center/press box/skybox facility at Johnson Hagood Stadium. Only minimal architectural and engineering costs were capitalized in fiscal year 2006. As all of the expenditures for these two projects were for capital items, they are not included in the statement of revenue and expenditures.

6. Intercollegiate Athletics Debt

Intercollegiate Athletics Debt – Annual Maturities

	2003 Athletic Facility Bonds	2005 Athletic Facility Bonds	2006 Athletic Facility Bonds	Total
2007	\$ 175,513	\$ 514,576	\$ -	\$ 690,089
2008	182,867	536,362	-	719,229
2009	190,529	559,071	-	749,600
2010	198,513	582,742	175,000	956,255
2011	206,830	607,415	185,000	999,245
2012-2016	1,171,638	2,697,952	1,155,000	5,024,590
2017-2021	540,262	-	1,620,000	2,160,262
2022-2026	-	-	2,295,000	2,295,000
2027-2029	-	-	3,250,000	3,250,000
Total	<u>\$ 2,666,152</u>	<u>\$ 5,498,118</u>	<u>\$ 8,680,000</u>	<u>\$ 16,844,270</u>